

108TH CONGRESS  
1ST SESSION

# H. R. 1780

To amend the Internal Revenue Code of 1986 to eliminate the tax on the net capital gain of taxpayers other than corporations, to exclude interest and dividends from gross income, and to repeal the 1993 income tax increase on Social Security benefits.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 11, 2003

Mr. BEAUPREZ (for himself, Mr. BLUNT, Ms. GRANGER, Mrs. MUSGRAVE, and Mr. TOOMEY) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to eliminate the tax on the net capital gain of taxpayers other than corporations, to exclude interest and dividends from gross income, and to repeal the 1993 income tax increase on Social Security benefits.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. EXCLUSION OF NET CAPITAL GAIN OF TAX-**  
4       **PAYERS OTHER THAN CORPORATIONS.**

5       (a) IN GENERAL.—Part I of subchapter P of chapter  
6       1 of the Internal Revenue Code of 1986 (relating to treat-

1 ment of capital gains) is amended by adding at the end  
 2 the following new section:

3 **“SEC. 1203. EXCLUSION OF NET CAPITAL GAIN OF TAX-**  
 4 **PAYERS OTHER THAN CORPORATIONS.**

5 “In the case of a taxpayer other than a corporation,  
 6 gross income shall not include an amount equal to the net  
 7 capital gain of the taxpayer for the taxable year.”

8 (b) CONFORMING AMENDMENTS.—

9 (1) Section 1 of such Code is amended by strik-  
 10 ing subsection (h).

11 (2) Subsection (b) of section 55 of such Code  
 12 is amended by striking paragraph (3).

13 (3) Section 1222 of such Code is amended by  
 14 adding at the end the following new sentence:

15 “Determinations under this section shall be made before  
 16 the application of section 1203.”

17 (4) The table of sections for part I of sub-  
 18 chapter P of chapter 1 of such Code is amended by  
 19 adding at the end the following new item:

“Sec. 1203. Exclusion of net capital gain of taxpayers other than  
 corporations.”

20 (c) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to taxable years beginning after  
 22 December 31, 2002.

1 **SEC. 2. EXCLUSION INTEREST AND DIVIDEND INCOME**  
2 **FROM TAX.**

3 (a) IN GENERAL.—Part III of subchapter B of chap-  
4 ter 1 of the Internal Revenue Code of 1986 (relating to  
5 amounts specifically excluded from gross income) is  
6 amended by inserting after section 115 the following new  
7 section:

8 **“SEC. 116. EXCLUSION OF DIVIDENDS AND INTEREST RE-**  
9 **CEIVED BY INDIVIDUALS.**

10 “(a) EXCLUSION FROM GROSS INCOME.—Gross in-  
11 come does not include dividends and interest otherwise in-  
12 cludible in gross income which are received during the tax-  
13 able year by an individual.

14 “(b) CERTAIN DIVIDENDS EXCLUDED.—Subsection  
15 (a) shall not apply to any dividend from a corporation  
16 which for the taxable year of the corporation in which the  
17 distribution is made is a corporation exempt from tax  
18 under section 521 (relating to farmers’ cooperative asso-  
19 ciations).

20 “(c) SPECIAL RULES.—For purposes of this sec-  
21 tion—

22 “(1) EXCLUSION NOT TO APPLY TO CAPITAL  
23 GAIN DIVIDENDS FROM REGULATED INVESTMENT

1 COMPANIES AND REAL ESTATE INVESTMENT  
2 TRUSTS.—

**“For treatment of capital gain dividends, see sections 854(a) and 857(c).**

3 “(2) CERTAIN NONRESIDENT ALIENS INELI-  
4 GIBLE FOR EXCLUSION.—In the case of a non-  
5 resident alien individual, subsection (a) shall apply  
6 only in determining the taxes imposed for the tax-  
7 able year pursuant to sections 871(b)(1) and 877(b).

8 “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-  
9 ERSHIP PLANS.—Subsection (a) shall not apply to  
10 any dividend described in section 404(k).”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Subparagraph (C) of section 32(c)(5) of  
13 such Code is amended by striking “or” at the end  
14 of clause (i), by striking the period at the end of  
15 clause (ii) and inserting “; or”, and by inserting  
16 after clause (ii) the following new clause:

17 “(iii) interest and dividends received  
18 during the taxable year which are excluded  
19 from gross income under section 116.”.

20 (2) Subparagraph (A) of section 32(i)(2) of  
21 such Code is amended by inserting “(determined  
22 without regard to section 116)” before the comma.

23 (3) Subparagraph (B) of section 86(b)(2) of  
24 such Code is amended to read as follows:

1 “(B) increased by the sum of—

2 “(i) the amount of interest received or  
3 accrued by the taxpayer during the taxable  
4 year which is exempt from tax, and

5 “(ii) the amount of interest and divi-  
6 dends received during the taxable year  
7 which are excluded from gross income  
8 under section 116.”.

9 (4) Subsection (d) of section 135 of such Code  
10 is amended by redesignating paragraph (4) as para-  
11 graph (5) and by inserting after paragraph (3) the  
12 following new paragraph:

13 “(4) COORDINATION WITH SECTION 116.—This  
14 section shall be applied before section 116.”.

15 (5) Paragraph (2) of section 265(a) of such  
16 Code is amended by inserting before the period “, or  
17 to purchase or carry obligations or shares, or to  
18 make deposits, to the extent the interest thereon is  
19 excludable from gross income under section 116”.

20 (6) Subsection (c) of section 584 of such Code  
21 is amended by adding at the end the following new  
22 flush sentence:

23 “The proportionate share of each participant in the  
24 amount of dividends or interest received by the common  
25 trust fund and to which section 116 applies shall be con-

1 sidered for purposes of such section as having been re-  
2 ceived by such participant.”.

3 (7) Subsection (a) of section 643 of such Code  
4 is amended by redesignating paragraph (7) as para-  
5 graph (8) and by inserting after paragraph (6) the  
6 following new paragraph:

7 “(7) DIVIDENDS OR INTEREST.—There shall be  
8 included the amount of any dividends or interest ex-  
9 cluded from gross income pursuant to section 116.”.

10 (8) Section 854(a) of such Code is amended by  
11 inserting “section 116 (relating to exclusion of divi-  
12 dends and interest received by individuals) and”  
13 after “For purposes of”.

14 (9) Section 857(c) of such Code is amended to  
15 read as follows:

16 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-  
17 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

18 “(1) TREATMENT FOR SECTION 116.—For pur-  
19 poses of section 116 (relating to exclusion of divi-  
20 dends and interest received by individuals), a capital  
21 gain dividend (as defined in subsection (b)(3)(C)) re-  
22 ceived from a real estate investment trust which  
23 meets the requirements of this part shall not be con-  
24 sidered as a dividend.

“(2) TREATMENT FOR SECTION 243.—For purposes of section 243 (relating to deductions for dividends received by corporations), a dividend received from a real estate investment trust which meets the requirements of this part shall not be considered as a dividend.”.

(10) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by inserting after the item relating to section 115 the following new item:

“Sec. 116. Exclusion of dividends and interest received by individuals.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2002.

14 **SEC. 3. REPEAL OF 1993 INCOME TAX INCREASE ON SOCIAL**  
15 **SECURITY BENEFITS.**

(a) RESTORATION OF PRIOR LAW FORMULA.—Sub-  
section (a) of section 86 of the Internal Revenue Code of  
1986 is amended to read as follows:

19       “(a) IN GENERAL.—Gross income for the taxable  
20 year of any taxpayer described in subsection (b) (notwith-  
21 standing section 207 of the Social Security Act) includes  
22 Social Security benefits in an amount equal to the lesser  
23 of—

1           “(1) one-half of the Social Security benefits re-  
2           ceived during the taxable year, or

3           “(2) one-half of the excess described in sub-  
4           section (b)(1).”

5           (b) REPEAL OF ADJUSTED BASE AMOUNT.—Sub-  
6           section (c) of section 86 of such Code is amended to read  
7           as follows:

8           “(c) BASE AMOUNT.—For purposes of this section,  
9           the term ‘base amount’ means—

10           “(1) except as otherwise provided in this sub-  
11           section, \$25,000,

12           “(2) \$32,000 in the case of a joint return, and

13           “(3) zero in the case of a taxpayer who—

14           “(A) is married as of the close of the tax-  
15           able year (within the meaning of section 7703)  
16           but does not file a joint return for such year,  
17           and

18           “(B) does not live apart from his spouse at  
19           all times during the taxable year.”

20           (c) CONFORMING AMENDMENTS.—

21           (1) Subparagraph (A) of section 871(a)(3) of  
22           such Code is amended by striking “85 percent” and  
23           inserting “50 percent”.



1           (2)(A) Subparagraph (A) of section 121(e)(1)  
2           of the Social Security Amendments of 1983 (Public  
3           Law 98–21) is amended—

4                   (i) by striking “(A) There” and inserting  
5                   “‘There’”;

6                   (ii) by striking “(i)” immediately following  
7                   “amounts equivalent to”; and

8                   (iii) by striking “, less (ii)” and all that  
9                   follows and inserting a period.

10           (B) Paragraph (1) of section 121(e) of such Act  
11           is amended by striking subparagraph (B).

12           (C) Paragraph (3) of section 121(e) of such Act  
13           is amended by striking subparagraph (B) and by re-  
14           designating subparagraph (C) as subparagraph (B).

15           (D) Paragraph (2) of section 121(e) of such  
16           Act is amended in the first sentence by striking  
17           “paragraph (1)(A)” and inserting “paragraph (1)”.

18           (d) EFFECTIVE DATES.—

19                   (1) IN GENERAL.—Except as otherwise pro-  
20                   vided in this subsection, the amendments made by  
21                   this section shall apply to taxable years beginning  
22                   after December 31, 2002.

23                   (2) SUBSECTION (c)(1).—The amendment made  
24                   by subsection (c)(1) shall apply to benefits paid after  
25                   December 31, 2002.

1           (3) SUBSECTION (c)(2).—The amendments  
2       made by subsection (c)(2) shall apply to tax liabil-  
3       ities for taxable years beginning after December 31,  
4       2002.

5       (e) MAINTENANCE OF TRANSFERS TO HOSPITAL IN-  
6       SURANCE TRUST FUND.—

7           (1) IN GENERAL.—There are hereby appro-  
8       priated to the Hospital Insurance Trust Fund estab-  
9       lished under section 1817 of the Social Security Act  
10      amounts equal to the reduction in revenues to the  
11      Treasury by reason of the enactment of this section.  
12      Amounts appropriated by the preceding sentence  
13      shall be transferred from the general fund at such  
14      times and in such manner as to replicate to the ex-  
15      tent possible the transfers which would have oc-  
16      curred to such Trust Fund had this Act not been  
17      enacted.

18          (2) REPORTS.—The Secretary of the Treasury  
19      or the Secretary's delegate shall annually report to  
20      the Committee on Ways and Means of the House of  
21      Representatives and the Committee on Finance of  
22      the Senate the amounts and timing of the transfers  
23      under this section.

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